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The CPA MANAGEMENT ADVISOR

NEWSLETTER OF THE AICPA DIVISION FOR MANAGEMENT ADVISORY SERVICES

BULLETIN BOARD

LITIGATION SERVICES INTERPRETATION

The MAS Executive Committee approved for issuance an interpretation of the Statements on Standards for MAS that clarifies their application to litigation services. These services, a growing area of MAS practice, range from expert witness testimony on matters within a CPA's purview to assistance with storing, retaining and processing data for actual or potential litigation.

The new interpretation states that litigation services, including expert witness testimony, are management advisory services and subject to the SSMASs. They do not constitute the performance of services in other practice areas, even if the testimony given deals with practice areas that are subject to other technical standards.

If a client asks a practitioner to perform an audit or other type of attestation service in connection with litigation, that service would be covered by the appropriate standards for such a service.

Members of a California litigation services committee requested the interpretation when they faced challenges to their litigation services, including expert witness testimony, on the grounds that they did not comply with the standards.

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ANDERSEN RESTRUCTURES

By restructuring into two separate units, one for audit and tax work and another for management information consulting, Arthur Andersen & Co. made a bold move at its January partners' meeting in Dallas. Will it affect the rest of the accounting profession, especially considering Andersen's size and status as the biggest of the Big Eight? Critical to this question and its answer are the why and how behind the decision.

The why focuses on three areas. Most crucial, according to an Andersen spokesman, is delivery of services. As a separate unit, Andersen Consulting can "compete effectively" with its major rivals, which are computing specialists such as IBM and DEC rather than other consulting firms, the spokesman explained. The new firm will have an easier time obtaining capital to buy hardware and develop software. It is still studying the possibility of joint ventures.

The firm's management reporting structure and governance also led to the restructuring. The new Anderson Consulting unit will have consulting staff reporting to consulting partners, and they to managing consulting partners, all the way up the line to the international Arthur Andersen & Co., Societe Cooperative. The old structure had consulting partners often reporting to auditing heads at the branch level, exacerbating tension between practice areas. In addition, the Board of Partners will increase from 16 to 24, and its management consulting representatives will increase to eight.

Spokesmen at other firms say they have no problems with reporting and governance because their consultants are integrated into the management structure. They see Andersen's move as unique to its corporate culture.

But at Andersen they view the restructuring, with its new reporting system, as a response to the changes created by an emerging global marketplace. They contend that other

firms, including other Big Eight firms, will eventually adopt this new structure after monitoring Andersen's experience. And although Andersen Consulting will no longer formally be a CPA-based accounting firm, its members who are CPAs will maintain their ties with the AICPA and its MAS Division.

Arthur Andersen & Co., while primarily serving audit and tax clients, will still provide some general business consulting services outside the computer field. Andersen Consulting will assume full responsibility for computer systems integration, which involves linking the various parts of a company (manufacturing, distribution, accounting and so on) through its automated systems.

Because of the size of systems integration engagements—large ones can bring in \$25 million or more—compensation became the third pressing issue. In the last fiscal year, consulting accounted for 40 percent of Andersen's revenues; and consulting grew at a much faster rate (30 percent) than the firm's other services. Consultants therefore believed that their share of profits didn't fairly reflect the amount of business they generated. Under the restructuring plan, compensation will be based on "practice and personal performance," explained Stanley Cornelison, worldwide managing partner for management information consulting.

The high percentage of revenue Andersen earns from consulting sets it apart. Among some other Big Eight firms, consulting accounts for only 13 to

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INSTITUTE ANNUAL MEETING

Mark your calendar to attend the AICPA 102nd Annual Members Meeting in San Antonio, Texas, on Sept. 24-27, 1989. The technical program will feature plenary sessions given by key speakers on political and business issues. Concurrent sessions will cover tax, accounting and auditing, management and finances. An exciting social program will showcase Texas hospitality from a Mexican fiesta to a Western barbecue. Plan to attend today! For further information, write or call AICPA Meetings & Travel Services Division, 1211 Avenue of the Americas, New York, New York 10036-8775.

HALF-PRICE OFFER ON MAS PUBLICATIONS

The Institute is offering members a special 50-percent discount off the regular member price on MAS publications if they buy all the titles in a series. The offer, which includes a free post binder with each series, expires on May 1, 1989. You can use this offer to stock your firm library or complete your own. Prices are as follows:

Small Business Consulting Practice Aids, 13 titles, \$46.20, Order No. 055592

Practice Administration Aids, 5 titles, \$18.60, Order No. 055997

Technical Consulting Practice Aids, 9 titles, \$33.00, Order No. 055198

Special Reports, 5 titles, \$16.20, Order No. 048601

Additional Post Binders, \$16.00, Order No. 045001


MAS TRAINING PROGRAM WINS PRAISE

Training isn't just for beginners. Ask David Murray. As an MAS practitioner with 22 years of experience, he attended the *Advanced MAS Skills* section of the National MAS Training Program last year at Ohio State University in Columbus. "It's worth the week," he explained. As a matter of fact, he believes a full week is needed to cover all the "relevant topics," which include strategic planning, business valuation, practice development and marketing.

Commenting on how "the content was well chosen for the experienced MAS practitioner... you could come back and apply it," Murray did just that. He and others at J.G. Hodgson & Co., Inc., have "developed several strategic planning engagements," including one for the firm itself. Hodgson is a 46-person regional firm in New Bedford, Mass., with an MAS division of four people. It serves small- to medium-size clients.

In addition to newly gained knowledge, Murray returned to Hodgson with some tangible benefits too. They included a book on presentation techniques used as course material by David Peoples, one of the speakers. Murray praised such handouts, saying they enhanced the "well-packaged program."

A newcomer to Hodgson accompanied Murray when he attended the training program. Fred Allard, who had

worked as a non-CPA internal consultant for 20 years, learned a great deal from the course. It helped him adapt to his new role as an MAS practitioner.

Allard attended the advanced session along with Murray, but the program also offers a basic course that takes place a week earlier. This year *Development of MAS Skills*, from June 12-16, will instruct participants in the basics of consulting. *Advanced MAS Skills*, from June 19-23, will cover the same specialized topics that experienced practitioners such as Murray benefitted from last year. For further information, write to:

Ohio State University
Continuing Education
MAS Training Program
P.O. Box 21878

Columbus, Ohio 43221-0878

For travel and lodging information, call the program registrar at (614) 292-4320.


SUGGESTIONS FROM THE CPA MANAGEMENT ADVISOR

If you provide management advisory services in the form of consultations (informal advice), getting paid at all can be a problem. But getting paid what your advice and assistance are really worth is a greater challenge, and it may require a deviation from the standard fee-per-hour approach of the public accountant. That "deviation" is value billing, which involves charging the client on the basis of results rather than for time expended.

First you need to identify each MAS consultation for what it is—a *professional* service requiring skills and earning a fee—not advice from a friend or acquaintance. Also identify MAS as a *separate* service so that you can secure a premium fee. After all, if you make no distinction between what (or how) you charge for your services, how can the client recognize that the value of the

knowledge and skill you apply in developing a complex forecast differs from that used in completing a routine tax return?

Once you have accomplished these steps, determine how to bill. Should it be based on the quarter-of-an-hour phone conversation with the client, or on a one-hour service minimum (at standard MAS rates)? Or should it depend on how important the information turns out to be?

Suppose the client saves \$10,000 because you advise against purchasing a particular piece of equipment. Is that worth only a standard charge based on time? Will the client recognize the true impact of your professional advice on his pocketbook and happily pay more? There is only one way to find out: use value billing!



A CPA A DAY...

In the beginning—Aug. 1, 1983—they rented \$5-a-month desks, complete with initials carved inside hearts. Now, 5½ years later, they anticipate 1989 billings of \$1.3 to \$1.4 million.

Doak, Cuppett & Poling (DC & P) in Clarksburg, W. Va., achieved success (and bought new desks) by specializing in health care. Ninety percent of its business serves this industry. "To be so dependent on one industry is scary," says Ted Cuppett. But he also points out that with 11 percent of the gross national product spent on health care each year, it's not too scary.

In addition to such standards as auditing, accounting and tax preparation, DC & P offers clients a broad range of management advisory services. As part of cost reporting, the firm will handle regulatory filings—including Medicare and Medicaid reports—to maximize clients' reimbursements. In the computer area, it will select hardware and develop customized software. One of the firm's applications is marketed nationally, and boasts 26 up-and-operating installations in Michigan, Ohio, Pennsylvania and Virginia, as well as West Virginia. Feasibility studies (a hospital adding a psychiatric unit, for example) and alternative studies (how to fill empty beds) round out the firm's offerings.

Specialization allows the firm to provide services others cannot. One staffer, for instance, regularly reviews the Federal Register to check for any effects it may have on the health care industry.

DC & P's clients represent a broad cross-section of the health care field. Of course hospitals, nursing homes and doctors are among them; but so are hospices, mental health facilities and medical equipment companies.

The firm actively seeks clients through aggressive marketing. It exhibits at trade shows and sponsors seminars and conferences. It publishes a quarterly newsletter, *Outreach*, for clients and "friends" who can help with referrals and a monthly, *Health Care Financial Alert*, under the auspices of Warren, Gorham & Lamont (a publisher of professional material). But perhaps the most important strategy is to "get on the agenda to speak" according to Cuppett. The firm targets state associations for hospitals, home health care, nursing homes and the like.

Cuppett recalls the first organization the firm assisted—the Health Care Cost Review Authority—which was established to set and regulate fees for hospitals throughout West Virginia. By donating considerable time to this regulatory body, DC & P became the firm most knowledgeable about health care in the state. The time proved well spent for the advantage it provided.

The goodwill gesture represented a triumph in another sense as well, because DC & P was a start-up firm at the time. The three partners had all recently left Toothman, Rice & Co. (TR & Co.), where they had worked as a health care team. Mark Doak had audited hospitals, James Poling had performed systems work for various health care providers, and Ted Cuppett had established and run the firm's MAS practice. Cuppett had guided TR & Co.'s MAS practice toward health care because of his previous stints as a hospital auditor for Ernst & Whinney and an assistant administrator at Grafton City Hospital in West Virginia.

But for the three specialists, the work at TR & Co. was still too diverse. They launched their own firm "to concentrate on an industry." Today health care remains the focus for a staff of 20. It includes 15 professionals, 11 of whom are CPAs.

DC & P emphasizes service and expertise among its staff. The firm has recruited not just from other CPA firms, but also from health care entities such as hospitals, nursing homes and clinics. Now with experienced hands on board to show newcomers the ropes, the firm has begun recruiting from colleges too. A generous CPE budget for health care, which can include out-of-town training, helps staff members maintain and improve their specialized skills. They, in turn, help DC & P prosper.

Looking broadly to the future, Cuppett believes "there's a tremendous opportunity out there for any CPA firm to service health care providers, even if they don't do any [health care work] now." Consulting services could be just what the doctor—and the hospital and the nursing home—ordered.

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MAS**

ANDERSON RESTRUCTURES

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20 percent of revenue. The other firms cite this difference as another reason why they do not need to reorganize as Andersen does.

As part of the restructuring, Duane Kullberg will step aside as Andersen's managing partner and chief executive officer before his term expires. "With major long-term management appointments to be made in this new structure, I believe a newly elected chief executive should make these appointments. Now is the proper time to put in place the management that will, in the end, be accountable for the ultimate results of our decision to adopt a new structure," he explained.

Whether or not other Big Eight accounting firms, and smaller ones as well, opt to follow Andersen's lead in restructuring, the firm's management remains confident. As Kullberg stated, "We sincerely believe we have created and adopted what will become the 21st century model for global professional services organizations."

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NEW LITIGATION SERVICES COURSE

The AICPA will present a new two-day conference, *The CPA's Role in Litigation Support Services*, on May 11-12 in San Francisco and June 10-11 in Boston. Litigation support services represent one of the most exciting new fields open to CPAs today, and by attending either of these sessions you can learn how to fit these services into your existing practice.

Each conference includes a mock deposition and trial as well as discussions by experts on how CPAs provide litigation support. Concurrent sessions address damage measurement, divorce, business valuations and bankruptcy and other related subjects. Call (212) 575-6451 for further information.

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PUBLICATIONS REVIEW

Profitable Consulting: Guiding America's Managers Into the Next Century by Robert O. Metzger, Addison-Wesley Publishing Company, Reading, Mass., 1989, 191 pages, \$16.95.

Robert Metzger's new book focuses on change—recent and ongoing. In the technology area it talks about telecommunications and automation; in the policy area it discusses deregulation; and in the marketing and sales area it explores globalization. The message in *Profitable Consulting: Guiding America's Managers Into the Next Century* is that consultants must adapt to these changes to prosper.

Metzger advises consultants to change the consulting method itself. "Those consulting firms that continue to be in constant demand are finding more experienced and smarter clients who have no time for lengthy, detailed written reports and who prefer 'process' consultants who facilitate needed change rather than 'content' con-

sultants who teach basic management techniques or methodologies by example." He also points out that many successful firms specialize in one or two areas, rather than providing general business advice and assistance.

What is 'process' consulting? Metzger describes it as getting "clients thoroughly involved in all stages of a project—from identifying problems to developing and implementing solutions—using project teams with staff from both the client and the consulting organizations. Often these relationships become so close that the client naturally continues to work with the same consulting firm, instead of putting later stages of the project out for a new bid." CPAs are in an ideal position to provide process consulting, since they most likely have already established continuing relationships with clients.

Practitioners will find chapters 5

through 9 particularly helpful and informative. They deal with contemporary, client-oriented issues in strategic services, organization designs, compensation, marketing and technology. The final chapter provides insights for tomorrow's consultants, such as how to work with small businesses and family businesses. Each chapter includes a bibliography.

The issues-oriented treatment in *Profitable Consulting* goes well beyond the consulting basics discussed in *Consulting to Management*, an earlier book Metzger coauthored with Larry Greines. But the book sometimes falters on specifics. In a section on consulting associations, it gives incorrect information on the name and function of the Institute's MAS Division. On the whole, however, this book offers a thoughtful examination of subjects important to those who advise clients in these rapidly changing times.

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